Thesis Abstract

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Trade, Investment and Politics between China and Central and Eastern Europe

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Contents

1. The background and importance of the research........4

2. Methodology and the theoretical framework............5
   2.1. The reasoning of hypotheses ..............................7
   2.2. Theoretical framework ................................10

4. List of selected sources .....................................16

5. List of the author’s related publications ..................20
1. The background and importance of the research

The Central and Eastern European (CEE) region has obviously never played an important role in the foreign policy of China. The total population of CEE countries equals to one of the bigger provinces of the PRC, and their cumulative economic production is a fragment of the Chinese GDP. Due to their EU membership and perceived economic opportunities of CEE countries, however, Beijing has turned to the region in the last decade. Following their successful integration into the Euro-Atlantic alliance system, most of the CEE countries have also rediscovered the enormous Chinese market as a potential economic and business opportunity, while the global financial crisis and the difficulties of the European Union offered another strong impetus to strengthen the political and economic relationship with Beijing. Most CEE countries share the same problems and challenges when it comes to their China policy: growing trade imbalances, intra-CEE competition for the attention of Beijing, the concerns of the EU, rising Chinese influence in the region and first of all the lack of tangible results after a decade of cooperation.

Ever since the inception of the cooperation, the 16+1 has been a target of tremendous criticism. The EU and certain Western member states have been concerned of the increased level of Chinese activity in the Eastern part of the integration and afraid that Beijing might try to divide and rule the EU through the 16+1. Furthermore, EU-China relations have been deteriorating in general recently, as Europe is more and more frustrated by the rise of China, and Beijing is getting
more and more disappointed by the slow progress of the EU while its own self-confidence is on the rise. Certain major European countries like France or Germany are concerned of the Chinese activities in the CEE region, as they see China as a competitor on a market they have always considered as their home turf. In 2012, I was attending an interesting closed-door roundtable on EU-China relations in Brussels, where a diplomat from one of the Western European countries set forth his remarkable assessment of the 16+1 initiative as he said: “China and Central Europe were building a new Berlin Wall across the EU.”

In the following, I would like to challenge this oversimplified discourse and to point out that Chinese influence in the region is very limited if not marginal, and its source is not the economy, as despite all previous expectations Chinese economic presence is still insignificant in CEE countries, and what China has been offering is not an attractive economic alternative to the EU members of the region. I believe it is of utmost importance to understand the real causes of the pro-China movement of certain CEE countries, since a misguided and oversimplified discourse, focusing on Chinese economic offers does not catch the reality, and measured responses cannot be placed on misbeliefs.

2. Methodology and the theoretical framework

Proper EU level reactions to the increased Chinese activity should be based on the proper understanding of the situation. The present paper aims to reveal the impact of the 16+1 on the policies of the CEE-11
countries in the EU, and on their attitude towards China based on three fundamental research questions:

- **How important are the absolute and relative trade and investment relations or dependencies between China and the CEE-11 countries?**

- **Are there any correlations between the volume and dynamics of bilateral trade or investment relations and the quality of bilateral political relations with China?**

- **Has there been any significant changes in the EU level China policy of CEE-11 countries due to the increased importance of bilateral economic relations with China?**

According to the concerns of the European External Action Service and major Western EU members China might play CEE member states against the unity of the EU by offering economic benefits. The present work attempts to verify the validity of the two following assumptions: first, China may obtain political favours from CEE EU member states in exchange for export benefits; and second, China may obtain political favours from major CEE EU member states in exchange for higher levels of foreign direct investment thus disrupting the unity of the EU. To evaluate such an alleged threat to the cohesion of EU external relations and internal cohesion, the context and extent of Chinese activity in the CEE region must be understood, through the following hypotheses:
- **H1.** If China would have been buying political support in exchange of economic advantages, its proportional economic presence had been more significant in the CEE-11 countries than in Western EU member states.

- **H2.** If China had gained political influence in the CEE-11 countries, there would be a correlation between the quality of political relations and the quantity of economic relations with CEE-11 countries.

- **H3.** If China had had the political influence in CEE-11 countries to divide EU level China policies, the voting habits of CEE-11 countries on the level of EU or global issues would have changed as a sign of political compliance.

2.1. The reasoning of hypotheses

H1: As I have mentioned before (and will give examples below) institutions of the European Union and certain Western member states have been accusing the CEE-11 countries of exchanging the political unity of the EU for economic (trade and investment) advantages from China. If this was true, it is reasonable to argue that Chinese economic presence, the stock or inflow of investment to and level of trade with CEE-11 countries would be proportionally higher than in other member states not affected by the Chinese attempt to ‘buy them on the cheap’. To put it simple, if China were successful in ‘buying-off”
CEE-11 countries, the ‘price’ would be detectable in form of Chinese investment or trade opportunities favourable to CEE-11 nations after a decade of cooperation, compared other member states.

H2: In close logical relation with H1, I argue that if one assumes CEE-11 countries have been selling political favours to China in exchange of political benefits, the countries with the best political relations with a grateful Beijing should have the most lucrative economic exchanges with China. Alternatively, it is unlikely that Beijing would willingly push its companies to invest heavily in and trade with countries having ill political relations with China. When it comes to the question how to quantify the quality of China-CEE-11 political relations, the author is in the convenient situation to rely on the analysis of the China-CEE Institute of the Chinese Academy of Social Sciences, the main scientific advisory institution of the Ministry of Foreign Affairs of the PRC on 16+1 related issues.

H3: Anti-dumping procedures are launched by the European Commission under the Anti-Dumping Regulations (ADR) in order to protect the market of the EU from third countries’ products sold at a dumping price. The procedure requires the EC to consult the Anti-Dumping Advisory Committee. This latter one consists of representatives of each member state, and though the committee’s advice does not bind the commission, its votes are important, as the European Council has the final say on the issue. Anti-dumping proceedings have been a thorny issue between the EU and the PRC, as 77 per cent of the procedures was initiated against Chinese products
between 1995 and 2011. (Dunoff & Moore, 2014). The importance of the issue is well explained by the work of Scott and Jiang. According to their estimates granting market economy status and renouncing anti-dumping measures as a protective tool would endanger millions of jobs and reduce the economic output of the EU by EUR 228 billion per year. (Scott & Jiang, 2015) Others question the accuracy of these estimates, and point to the fact that only 2 per cent of total import from China were affected by anti-dumping duties in 2014, what amounts to EUR 6.5 billion only. (Sandkamp & Yalcin, 2016) No matter how wide the range of estimates is, it is obvious that anti-dumping procedures have a significant effect on EU-China trade and hurt Chinese economic interests. I consider anti-dumping votes as a great litmus paper to prove or reject H3, as trade policy and anti-dumping proceedings are one of the most neuralgic points of EU-China relations, and the ‘one country, one vote’ system gives a significant voting power (40 per cent) to the CEE-11 nations, what is disproportional to their economic or demographic size in the EU. That is, anti-dumping votes are the only regular bureaucratic procedures where the decision of individual member states may have a decisive impact on issues important to Beijing. Having said that, I presume that any successful Chinese attempt to influence CEE nations through the 16+1 mechanism to disrupt EU unity would have had an impact on the voting pattern of CEE-11 countries in the period in question.

Besides anti-dumping votes, another possible way to grasp the extent the pro-Chinese attitudes of certain CEE-11 countries is to analyse their voting habits on a global level that is in the General Assembly of
the United Nations (UN GA). In line with relevant literature [e.g. (Armstrong, 1981)] the records of the UN GA offer a great opportunity to monitor the behaviour of CEE-11 countries on a global level, since many of the votes are considered to be important to the EU, China or the US. Consequently, it seems to be worthwhile to check how CEE-11 countries have voted in the past decade, whether they got more aligned to Chinese interests or their allegiance is still with the West.

2.2. Theoretical framework

The present dissertation employs neorealism as the foundation of its theoretical framework. Therefore, the research predominantly focuses on power relations between sovereign states as primary actors of international relations (China and the CEE countries), although the EU cannot be left out of the analysis, however it will be understood as a state. The states in question aim to maximising their power to defend themselves, but in our case this struggle is limited to the economic space. Under the circumstances of the global financial crisis and the Eurozone crisis trust in international cooperation declined and economic survival was the primary goal of CEE countries, therefore they made rational choices to maximise their chances in form of temporary international alliances. Critics of the 16+1 cooperation also seem to employ a realist attitude when they express their concerns about the perceived intentions of Beijing to divide and rule the EU through the 16+1.
The second level of the theoretical framework focuses on the behaviour of small states. External factors and geographical location play a crucial role in the foreign policy of small states, and they are more vulnerable not only to geopolitical but to economic threats as well. Consequently, most small states behave like ‘jackals’ (smaller states that make alliances with big states to maximize their profits) or lambs (weak states that prefer the status quo and survival). I argue that the double crises of the turn of the last decade pushed most of the CEE states towards the category of jackals as they sought to find economic redemption from China. Finally, small states, both developed and less developed ones, tend to be more acquiescent in their foreign policy.

The third level of the framework introduced theoretical considerations to understand the links between economic dependence and international political compliance. This is a particularly important element as the fundamental problem the present dissertation attempts to find answer for, is the accusation that CEE-11 countries have sold out EU unity to China (political compliance) in exchange of trade and investment opportunities (economic dependence). This school of theory agrees with the works focusing on small states that nations with limited economic resources are more vulnerable to pressure from other nations and more likely to comply. Dependence is based on investment and trade relations, and such international transactions relative to its GNP are a source of economic vulnerability. Country A wields power over country B as a result of B’s reliance on A, but this power is not necessarily translated into real action or coercion if the issue in not important to the dominant state. On the other hand, even
less important issues to the dominant states can influence the dependent state if that particular issue in not important to the dependent either. Anyway, foreign policy behavior is viewed as partial payment in exchange for economic benefits. Finally, sensitivity and vulnerability also have to be taken account and a positive linear relationship is expected between dependence and compliance.

3. Findings of the dissertation

Based on the analytical section of the dissertation the following conclusions can be drawn about the hypotheses.

H1: If China would have been buying political support in exchange of economic advantages, its proportional economic presence had been more significant in the CEE-11 countries than in Western EU member states.

As it was presented in the empirical analysis, despite the seemingly rapid development trade relations the relative importance of China has barely increased, as its average share in CEE-11’s total export climbed to a mere 1.3 per cent in the past decade. At the same time Germany, France and the UK boosted their exports to China 7.07 per cent, 4.33 per cent and to 5.69 per cent, respectively as a share of their total exports, and the EU-28 as a whole has experienced a similar trend as the share of China had climbed to 3.86 per cent by 2018. That is, the foreign trade of CEE-11 countries is far less dependent on China than any of the three major Western European economies. Likewise, the dynamism of the growth of export dependency in CEE-11 countries
lagged behind the EU average and the German, French and British cases, consequently, China had become more important to the latter ones between 2009 and 2018 than to any of the CEE-11 countries.

When it comes to investment relations data show a similar picture. The number and value of executed Chinese investments in Central and Eastern Europe are insignificant compared to all of the invested capital, as the value of Chinese investment stock amounted to barely USD 7.5 billion dollars in 2019, meaning that its share was 0.9 per cent. Meanwhile other EU members attracted multiple times more Chinese investment in the last decade both in absolute and relative term. The Big-3, France, Germany and the United Kingdom hosts more than half of all Chinese FDI in the EU, while the share of the CEE-11 is 4.5 per cent. In relative terms, Chinese capital plays a more important role in Finland, Greece, Portugal and Italy than in any CEE-11 countries, and the UK, Germany, Sweden, Luxembourg and France are also ahead of any CEE-11 countries but of Hungary.

**H2: If China had gained political influence in the CEE-11 countries, there would be a correlation between the quality of political relations and the quantity of economic relations with CEE-11 countries.**

First, the link between the development of export dependency on China and the quality of political relations is rather weak and even negative. Countries with better political ties have experienced considerably slower development of export growth to China compared to countries with less political capital in Beijing. Second, it is noteworthy that major Western European economies — for instance
France, Germany and the UK — have experienced the fastest growth of exports to China and that their level of trade dependency is higher than that of any CEE-11 EU member states, therefore the assumption that CEE-11 countries support the political agenda of Beijing because they are dependent on trade with China, is false. Furthermore, even specific cases prove the lack of political leverage of Beijing over CEE countries. The visits of the Dalai Lama to Warsaw in 2008 and Prague in 2013, did not result in deteriorating trade relations between China and either Poland or the Czech Republic.

After checking the correlation of the other three factors (political, economic and social environment) used by the CASS ranking system, it is clear that none of those have had a considerable effect on China–CEE trade either. Better political relations, however, do have an impact on the level of investment relations with China. The correlation is strong, even though the special case of Hungary with its relatively high stock of Chinese capital somewhat distorts results. Even though the causality between the quality of political relations and the level of investments is not clear, it cannot be ruled out that CEE-11 politicians may have tried to attract more Chinese investment even at the price of political favours.

**H3:** *If China had had the political influence in CEE-11 countries to divide EU level China policies, the voting habits of CEE-11 countries on the level of EU or global issues would have changed as a sign of political compliance.*
Finally, even though EU decisions on anti-dumping votes are important to China, and CEE-11 have a reasonable say in these votes, it is impossible to find any visible evidence of Chinese influence on their voting habits. Their general approach is protectionist, though with different national-level approaches. Countries considered as ‘friends’ of China rarely voted in favour of Beijing, while countries whose political relations with Beijing were ‘less friendly’ voted in favour of China in some cases. This apparently paradoxical pattern might be explained by overall national approaches toward trade issues and protectionism, rather than any specific policy towards China. What important from the point of view of the present research is the lack of evidence that Beijing successfully used its alleged political leverage to influence anti-dumping votes through its partners in the CEE region. The tendency of CEE-11 countries to reject proposals to impose anti-dumping measures against China did not increase following the initial intensification of China–CEE relations and the actual establishment of the 16+1 initiative. On the global stage, CEE-11 countries supported the US side (or abstained) in 51 per cent of the votes, while supported China only in 15 per cent of the votes in the UNGA in the analysed period. Furthermore, their attitude did not change significantly in the post-16+1 period and CEE-11 countries voted together with the Big-3 of the EU in almost every case.

So, is the 16+1 cooperation an economic necessity or a Trojan Horse to divide and rule the EU? Based on the above presented argument, the dilemma presented in the subtitle of the present thesis is invalid. The cooperation between China and the CEE-11 countries was driven
by economic necessities following the double crises of the early 2010’s, but it has never fulfilled its promises, and thus it has been losing its significance lately. Alleged Chinese attempts to divide the EU through its cooperation with CEE-11 countries cannot be proven, as Beijing does not have the economic leverage in the region to exercise real political influence over the EU level policies of CEE-11 nations. Some CEE-11 government, however, have tried to gain political and economic benefits through serving Chinese interests in certain cases, but these attempts have rather served the personal political interest of CEE-11 politicians than of the nation they are supposed to work for. Therefore, the source of Chinese influence in CEE-11 countries does not originate directly from Beijing but from the populist or illiberal political elite of some Central and Eastern European Countries.

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